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Message Text

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PAGE 01 MEXICO 10019 171530Z
ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07 SP-02
SS-15 STR-07 TRSE-00 ACDA-12 /126 W
----------120072 180102Z /62
R 171522Z JUN 78
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 0908

C O N F I D E N T I A L MEXICO 10019

EO 11652: N/A
TAGS: ENRG, MX
SUBJECT: AMBASSADOR'S MEETING WITH TEXAS EASTERN OFFICIALS RE GAS

1. AMBASSADOR MET WITH JOHN JACOBS, KEITH DICKINSON, AND JERRY VERKLER OF TEXAS EASTERN YESTERDAY TO DISCUSS STATE OF PLAY OF US/MEXICAN GAS NEGOTIATIONS. TEXAS EASTERN REPS NOTED PEMEX WILL NOT TALK TO THEM ABOUT GAS UNTIL THE TWO GOVERNMENTS SET AN ACCEPTABLE FRAMEWORK FOR FUTURE NEGOTIATIONS. IN THIS REGARD JACOBS FELT CONSORTIUM/STATE/ DOE MEETING LAST WEEK DID NOT RESOLVE ISSUE OF HOW TO RESUME NEGOTIATIONS.

2. THE AMBASSADOR SAID HIS UNDERSTANDING WAS THAT USG WAS INTERESTED IN THREE MAIN ELEMENTS, I.E., THE INITIAL PRICE, THE ESCALATION CLAUSE AND THE CONTRACT TERM. OBVIOUSLY, THE USG WANTS THE LOWEST PRICE AND LONGEST TERM POSSIBLE. BEYOND THESE ELEMENTS IT IS THE COMPANIES' RESPONSIBILITY TO NEGOTIATE A COMMERCIALLY ACCEPTABLE CONTRACT. THE AMBASSADOR ASKED FOR THEIR SUGGESTIONS AS TO HOW NEGOTIATIONS SHOULD BE RESUMED.

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3. THE TEXAS EASTERN REPS SAID THE BEST APPROACH, FROM THEIR POINT OF VIEW, WOULD BE TO HAVE THE USG NOTIFY THE GOM THAT A CONTRACT BASED ON THE OLD LETTER OF INTENT WOULD BE CONSIDERED ACCEPTABLE. BARRING THIS, THE USG THROUGH EITHER THE CONSULTATIVE MECHANISM OR OTHER HIGH LEVEL REPRESENTATION SHOULD GET TOGETHER WITH APPROPRIATE MEXICAN AUTHORITIES AND SET GUIDELINES FOR THE COMPANY

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TO COMPANY NEGOTIATIONS.

4. THE AMBASSADOR ASKED FOR THE TE REPS' OPINIONS ON THE VARIOUS ELEMENTS OF THE CONTRACT, SUCH AS THE INITIAL PRICE, ESCALATORS AND TERMS, WHICH THE USG WANTS REVISED. THE TE REPS SAID NUMBER 2 FUEL OIL STILL REPRESENTS IN THEIR MINDS THE BEST PRICE AND PRICE EXCALATION GUIDE AVAILABLE. THEY SAID NUMBER 2 IS NOT LIKELY TO INCREASE RAPIDLY DURING A 6-YEAR CONTRACT TERM AND AT ANY RATE WOULD MOVE MORE SLOWLY THAN THE COST OF LIVING INDEX. REGARDING THE CONTRACT TERMS THEY NOTED THAT WHILE TE WOULD MUCH PREFER A LONGER PERIOD, THE FACT THAT MEXICO NEEDS TO SELL GAS FOR AN EXTENDED PERIOD OF TIME AMELIOR-ATES THEIR CONCERN SOMEWHAT. THEY NOTED, HOWEVER, THAT TE HAD A TWENTY-YEAR GAS CONTRACT WITH PEMEX WHICH THE GOM CANCELLED BECAUSE THE NORTH OF MEXICO WAS SHORT OF GAS. IF AT SOME TIME IN THE FUTURE MEXICO AGAIN RUNS SHORT, THE CONTRACT TERM WILL BE OF LITTLE CONSEQUENCE.

5. THE AMBASSADOR AGREED BUT NOTED THAT ONE OF THE USG'S GOALS IS TO ELIMINATE THE SITUATION WHERE EACH SUBSEQUENT MEXICAN PRESIDENT IS OBLIGED TO RENEGOTIATE THE CONTRACT. THE CONCERN IS THAT EACH PRESIDENT WOULD BE PRESSURED TO NEGOTIATE A STIFFER CONTRACT UNTIL THE GAS WAS NO LONGER COMMERCIALLY VIABLE. THE TE PEOPLE AGREED THAT THIS WAS A CAUSE FOR CONCERN BUT FELT THAT THEY WOULD ALWAYS BE ABLE
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TO NEGOTIATE A VIABLE CONTRACT.

6. BEFORE LEAVING THE TE REPS RETURNED TO THE QUESTION OF GOVERNMENT-TO-GOVERNMENT AND GOVERNMENT-TO-COMPANY RELA-TIONS. THEY FELT THAT THE TALKS IN WASHINGTON HAD BEEN FRUITFUL. BUT THEY HOPED THAT SOME FOCAL POINT COULD BE ARRANGED SO THE COMPANIES WOULD HAVE ONE SOURCE OF EASILY AVAILABLE INFORMATION. THE AMBASSADOR AGREED THAT WOULD BE USEFUL BUT ASKED IF THE USG WAS NOT OPEN TO CRITICISM IF IT COULD NOT FIND A WAY TO GET THE SAME INFORMATION TO ALL INTERESTED PARTIES, TO INCLUDE COMPANIES OTHER THAN THE CONSORTIUM. THE TE REPS AGREED EQUAL TREATMENT WAS DESIRABLE AND INDICATED THAT FERC REGULATIONS WOULD ENSURE THAT ALL INTERESTED COMPANIES COULD APPLY FOR THE MEXICAN GAS. LUCEY

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